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# Financial Analysis Summary

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6 May 2022

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Issuer

**Gap Group p.l.c. (C 75875)**



MZ INVESTMENT SERVICES



## MZ INVESTMENT SERVICES

The Directors  
Gap Group p.l.c.  
Gap Group Head Office  
Ċensu Scerri Street  
Tigné, Sliema, SLM 3060  
Malta

6 May 2022

Dear Sirs

### **Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the MFSA Listing Policies, we have compiled the Financial Analysis Summary (the “**Analysis**”) set out in the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of summarising key financial data appertaining to Gap Group p.l.c. (the “**Issuer**” or “**Gap Group**”); Gap QM Limited and Gap Qawra Limited being the guarantors in relation to the issue of 3.90% secured bonds 2024 – 2026 (ISIN: MT0001231233) (the “**2021 Bond Guarantors**”); and Gap QM Limited being the guarantor in relation to the issue of 3.70% secured bonds 2023 – 2025 (ISIN: MT0001231225) (the “**2020 Bond Guarantor**”). The data is derived from various sources or is based on our own computations as follows:

- (a) Historical financial data for the years ended 31 December 2019 to 31 December 2021 has been extracted from the audited consolidated financial statements of Gap Group p.l.c.
- (b) Historical financial data has been extracted from the audited financial statements of Gap QM Limited for the period 23 September 2020 to 31 December 2021.
- (c) The projected consolidated financial data relating to the Issuer for the year ending 31 December 2022 and the projected financial information relating to Gap Qawra Limited for the period 20 October 2021 to 31 December 2022 have been provided by management.



## MZ INVESTMENT SERVICES

- (d) Our commentary on the results of Gap Group and on its financial position is based on the explanations provided by management.
- (e) The ratios quoted in the Analysis have been computed by us applying the definitions set out in Part 4 of the Analysis.
- (f) Relevant financial data in respect of the companies included in Part 3 has been extracted from public sources such as websites of the companies concerned, financial statements filed with the Registrar of Companies or websites providing financial data.

The Analysis is meant to assist investors in the Issuer's securities and potential investors by summarising the more important financial data of Gap Group. The Analysis does not contain all data that is relevant to investors or potential investors. The Analysis does not constitute an endorsement by our firm of any securities of the Issuer and should not be interpreted as a recommendation to invest in any of the Issuer's securities. We shall not accept any liability for any loss or damage arising out of the use of the Analysis. As with all investments, potential investors are encouraged to seek independent professional financial advice before investing in the Issuer's securities.

Yours faithfully,

**Evan Mohnani**  
Senior Financial Advisor

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## DEFINITIONS

<b>2016 Bond(s)</b>	the €40,000,000 4.25% secured bonds 2023 issued by the Issuer pursuant to a prospectus dated 16 September 2016 and carrying ISIN MT0001231209. The outstanding nominal value of the said bonds as at the date of this report amounts to €8,367,900;
<b>2020 Bond(s)</b>	the €21,000,000 3.70% secured bonds 2023 - 2025 (ISIN: MT0001231225) issued by the Issuer pursuant to a prospectus dated 20 November 2020. The outstanding nominal value of the said bonds as at the date of this report amounts to €21,000,000;
<b>2021 Bond(s)</b>	the €21,000,000 3.90% secured bonds 2024 - 2026 (ISIN: MT0001231233) issued by the Issuer pursuant to a prospectus dated 6 December 2021. The outstanding nominal value of the said bonds as at the date of this report amounts to €21,000,000;
<b>2020 Bond Guarantor</b>	GQM, being the guarantor in relation to the issue of the 2020 Bonds;
<b>2021 Bond Guarantors</b>	each of GQM and GQL, being the guarantors in relation to the issue of the 2021 Bonds;
<b>Birkirkara Development</b>	the construction, development and finishing of a total of 14 residential units and 11 lock up garages, over a site in Birkirkara measuring 450m <sup>2</sup> ;
<b>Gap Group or Group</b>	the Issuer, its parent, GDL, GHL, GGF, GGL, GGCL, GML, GPL, GQL, GQM, MHL and GLL;
<b>GDL</b>	Geom Developments Limited (C 50805);
<b>GHL</b>	Geom Holdings Limited (C 64409);
<b>GGCL</b>	Gap Group Contracting Limited (C 75879);
<b>GGF</b>	Gap Group Finance Limited (C 54352);
<b>GGL</b>	Gap Għargħur Limited (C 72015);
<b>Għargħur Development</b>	the 34 luxury apartments (6 of which are at penthouse level) and 41 garages/car spaces, spread over 4 blocks with a variety of one, two and three bedroom units, all in a completely finished state, forming part of the development on the site in Triq Caravaggio, Għargħur, Malta measuring approximately 2,585m <sup>2</sup> ;
<b>GLL</b>	Gap Luqa Limited (formerly Qawra Investments Limited) (C 32225);
<b>GML</b>	Gap Mellieħa (I) Limited (C 72013);
<b>GPL</b>	Gap Properties Limited (C 47928);
<b>GQL</b>	Gap Qawra Limited (C 100153);
<b>GQM</b>	Gap QM Limited (C 96686);
<b>Hypothecated Property</b>	the immovable property described hereunder, namely:



	<p>(i) A cash balance amounting to the outstanding balance of 2016 Bonds is held by the security trustee for the benefit of the holders of the 2016 Bonds;</p> <p>(ii) The Qawra Site II and Mosta Site and all constructions to be developed thereon (namely, the Qawra II Development and Mosta Development) are secured in favour of the security trustee for the benefit of the holders of the 2020 Bonds;</p> <p>(iii) The Qawra Site III, Qawra Site II and Mosta Site and all constructions to be developed thereon (namely, the Qawra III Development, Qawra II Development and Mosta Development) are secured in favour of the security trustee for the benefit of the holders of the 2021 Bonds;</p>
<b>Issuer</b>	Gap Group p.l.c., a public limited liability company duly registered and validly existing under the laws of Malta with company registration number C 75875 and having its registered office at Gap Group Head Office, Ċensu Scerri Street, Tigné, Sliema SLM 3060, Malta;
<b>Luqa Development</b>	the construction, development and finishing of a total of 268 apartments and 301 garages spread over 5 zones with a mix of one, two and three bedroom units over the site having a developable area of approximately 8,500m <sup>2</sup> known as Ta' Blejkiet in Luqa;
<b>Marsascala Development</b>	the construction, development and finishing of a total of 63 residential units and 92 lock up garages, over a site in Marsascala measuring 2,402m <sup>2</sup> ;
<b>Mellieħa Development</b>	the 159 residential units and 174 lock-up garages, spread over 10 blocks with a variety of one, two and three bedroom residential units, all in a completely finished state, over the site known as Ta' Masrija in Mellieħa measuring approximately 5,100m <sup>2</sup> ;
<b>Mosta Development</b>	the construction, development and finishing of a total of 94 residential units, 4 commercial outlets and 109 car spaces, spread over 10 blocks with a variety of two and three bedroomed residential units over the Mosta Site;
<b>Mosta Site</b>	the site having a façade directly on Triq id-Difiza Ċivili and on Triq tal- Qares, in Mosta, measuring approximately 5,895m <sup>2</sup> , including its subterrains;
<b>MHL</b>	Manikata Holdings Limited (C 53818);
<b>Qawra I Development</b>	the 151 residential units and 181 garages/car spaces, spread over 7 blocks, identified as Blocks A to G (both included) with a variety of one, two and three bedroom units, all in a completely finished state, forming part of the development of the site in Triq il-Porzjunkola, Qawra, Malta measuring approximately 3,508m <sup>2</sup> ;
<b>Qawra II Development</b>	the construction, development and finishing of a total of 93 residential units, comprising a mix of one and two bedroomed units, and 151 garages spread over 2 blocks, over the Qawra Site II;
<b>Qawra III Development</b>	the construction, development and finishing of a total of 46 residential units, comprising a mix of two and three bedroomed units, and 58 lock-up garages spread over 3 blocks over Portion A, over the Qawra Site III;



<b>Qawra Site II</b>	the site located in Triq in-Nakkri, Qawra, measuring approximately 1,924m <sup>2</sup> ;
<b>Qawra Site III</b>	the site located in Triq it-Tamar, Qawra, measuring approximately 2,375m <sup>2</sup> and divided into Portion A and Portion B;
<b>San Pawl Tat-Tarġa Development</b>	the construction, development and finishing of a total of 9 residential units and 7 lock up garages, over a site in San Pawl Tat-Tarġa measuring 330m <sup>2</sup> ; and
<b>Security Trustee</b>	Equinox International Limited, a private limited liability company duly registered and validly existing under the laws of Malta, with company registration number C 29674 and having its registered office at Level 3, Valletta Buildings, South Street, Valletta VLT 1103, Malta, duly authorised to act as a trustee or co-trustee in terms of article 43(3) of the Trusts and Trustees Act (Chapter 331 of the laws of Malta).





## PART 1 – INFORMATION ABOUT GAP GROUP

### 1. KEY ACTIVITIES

#### 1.1 INTRODUCTION

The Issuer was incorporated in June 2016 as a public limited liability company under the Companies Act (Chapter 386 of the laws of Malta) with an authorised and issued share capital of €2.5 million, fully paid up.

The Issuer's principal object is that of a holding company and to promote, including through subsidiaries, the acquisition and development of real estate properties. As such, the Issuer is mainly dependent on the business prospects of its operating subsidiaries.

As at the date of this report, the following projects have been completed with units available for sale on the market: (i) the Mellieħa Development; (ii) the Luqa Development; (iii) the Birkirkara Development; (iv) the Marsascula Development; and (v) the San Pawl tat-Tarġa Development. As such, the Group is currently focused on developing: (i) the Qawra II Development; (ii) the Mosta Development; and (iii) the Qawra III Development.

Each project undertaken by the Group is typically undertaken through a special purpose vehicle established for that project, and each special purpose vehicle is managed through its board of directors, which has common members with the directors of the Issuer. Furthermore, the Issuer engages the services of its Subsidiary, GGCL, as the contractor responsible for the development of the immovable properties. Other than the foregoing, the Issuer is not dependent on other entities within the Group or outside the Group with respect to the management of its projects.

Several projects undertaken by the Subsidiaries of the Issuer were fully and, or partly funded (as applicable) by virtue of the issue of secured bonds on the Official List of the Malta Stock Exchange. The outstanding debt securities listed on the Official List are included below:

- (i) The 2016 Bonds were issued in September 2016 to principally finance the Mellieħa Development, the Ġhargħur Development and the Qawra I Development.
- (ii) The 2020 Bonds were issued in November 2020 to principally finance the Qawra II Development and the Mosta Development.
- (iii) The 2021 Bonds were issued in December 2021 to fund primarily the continuation of the Qawra II Development and the Mosta Development, and to acquire the Qawra Site III.

In April 2022, the Group redeemed in full the outstanding amount of €29.1 million in 3.65% Secured Bonds 2022.



## 2. DIRECTORS AND SENIOR MANAGEMENT

### 2.1 DIRECTORS OF THE ISSUER

The Issuer is managed by a Board comprising six directors who are entrusted with its overall direction and management. The Board members of the Issuer as at the date of this report are included hereunder:

George Muscat	Chairman and Executive Director
Paul Attard	Executive Director
Adrian Muscat	Executive Director
Francis X. Gouder	Independent Non-Executive Director
Mark Castillo	Independent Non-Executive Director
Chris Cilia	Independent Non-Executive Director

### 2.2 DIRECTORS OF THE 2020 BOND GUARANTOR AND 2021 BOND GUARANTORS

The following are the directors of each of **GQM and GQL**:

George Muscat	Executive Director
Paul Attard	Executive Director
Adrian Muscat	Executive Director

### 2.3 SENIOR MANAGEMENT

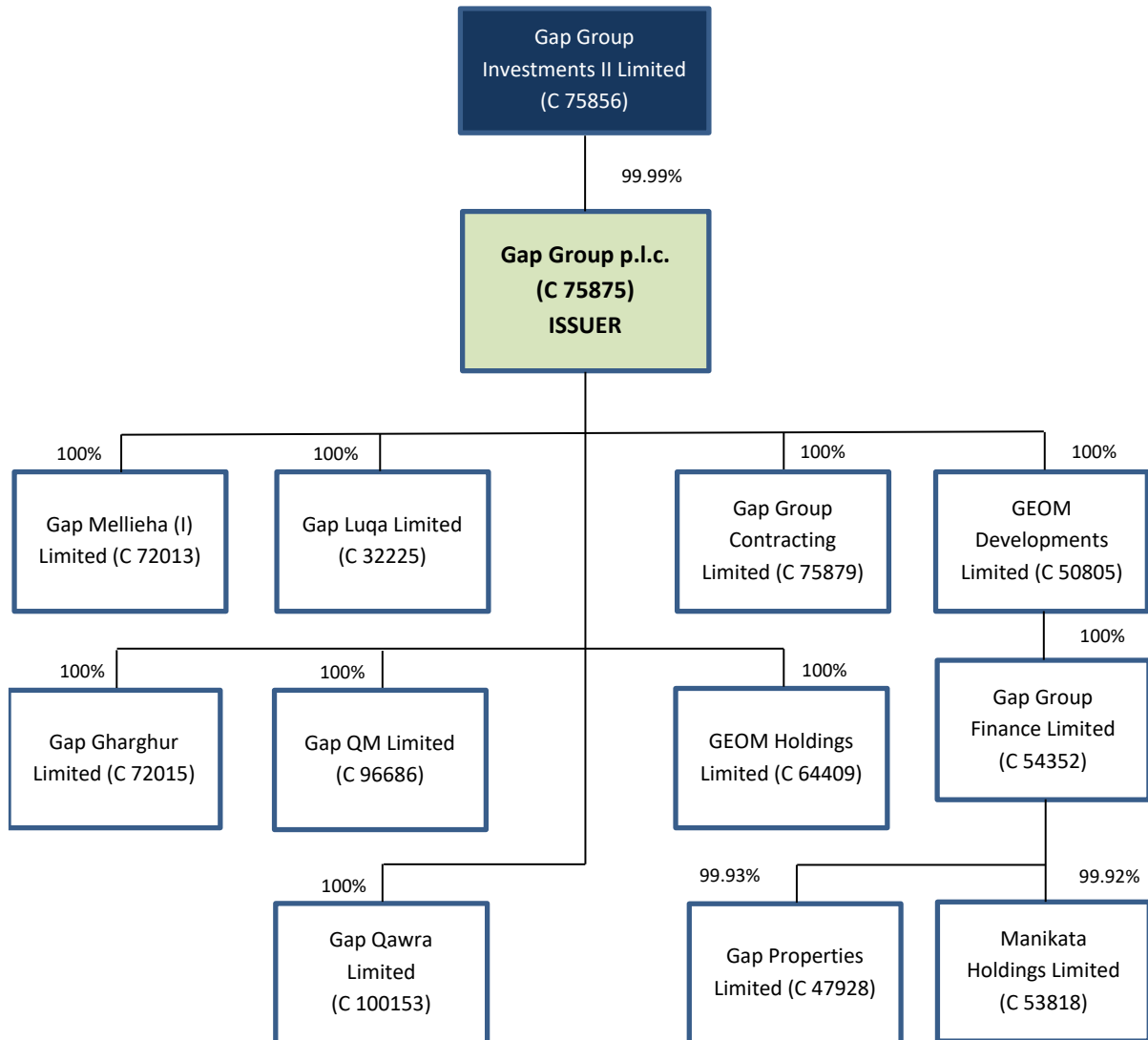
The Issuer itself has no employees and is managed directly by its board of directors. Each project company employs a number of management personnel and other employees devoted to managing each Project. The Group adopts a centralised management structure whereby it can deploy senior management personnel to perform duties in different parts of the Group depending on the requirements of each Group company; those services are then re-charged to the Group company where they are from time to time deployed.

Senior management of the Group is engaged by GGCL, the members of which are the following:

George Muscat	Chairman
Paul Attard	Director of Sales and Marketing
Adrian Muscat	Director of Sites
Keith Fenech	Chief Financial Officer
Raymond Gixti	Project Manager
Chris Gauci	Sales Manager
Elton Deguara	Sales Manager



### 3. ORGANISATIONAL STRUCTURE



The organisational structure of the Gap Group is depicted above. The Group is equally owned by three individual shareholders, namely, Paul Attard, Adrian Muscat and George Muscat, through Gap Group Investments II Limited (C 75856). Each of GML, GPL, GGL, GDL, GHL, GLL and GQM are project companies each entrusted with the construction and development of real-estate projects which, as at the date of this report, have been completed or are ongoing.

### 3.1 2021 BOND GUARANTORS

#### 3.1.1 Gap Qawra Limited

GQL is a private limited liability company, registered and operating in Malta in terms of the Companies Act with company registration number C 100153, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GQL has an authorised share capital of €5,000 (five thousand Euro) and an issued share capital of €5,000 (five thousand Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GQL was set up on 20 October 2021 to acquire the Qawra Site III and develop the Qawra III Development.

#### 3.1.2 Gap QM Limited

GQM is a private limited liability company, registered and operating in Malta in terms of the Companies Act with company registration number C 96686, having its registered office at GAP Holdings Head Office, Ċensu Scerri Street, Tigné, Sliema, SLM 3060, Malta. GQM has an authorised share capital of €5,000 (five thousand Euro) and an issued share capital of €5,000 (five thousand Euro) divided into ordinary shares of €1 (one Euro) each, fully paid up. GQM was set up on 23 September 2020 to acquire the Qawra Site II and Mosta Site and develop the Qawra II Development and Mosta Development.

### 3.2 2020 BOND GUARANTOR

#### 3.2.1 Gap QM Limited

See section 3.1.2 above.

## 4. CURRENT DEVELOPMENT PROJECTS

### 4.1 QAWRA II DEVELOPMENT

In Q4 2020, GQM acquired a building site located in Triq in-Nakkri, Qawra (in the limits of St Paul's Bay) for a consideration of €4.6 million. The site has a superficial area of approximately 1,924m<sup>2</sup> which, on completion, shall comprise 2 blocks of apartments consisting, in aggregate, of 93 apartments.

The Qawra II Development shall be spread over eight levels and shall include 151 lock-up garages spread over three underground levels. The combined gross floor space of the apartments and garages shall consist of an area of 16,810m<sup>2</sup>. The apartments shall be sold in a complete state and will mainly comprise a mix of one and two bedroomed residential units. Each block shall have separate entrances served with passenger lifts accessing both the residential units and the underlying garage levels. Furthermore, the topmost floor of each block shall consist of penthouses having full ownership of the respective roof and airspace.

The village of Qawra is located in the northern part of Malta. Being a coastal village, Qawra is a popular tourist destination but is also attractive to locals seeking to purchase a summer home or a reasonably priced residency. The Qawra II Development will include mainly a mix of one and two bedroomed apartments, measuring approximately 90m<sup>2</sup> to 120m<sup>2</sup>, and have been priced to target primarily first-time buyers and buy-to-let investors. The Directors are of the view that, in the current economic



conditions, the pricing strategy adopted has been designed to promote the sale of the residential units forming part of the Qawra II Development to a market where the Directors believe demand will remain strong.

The overall costs of construction and finishings of the Qawra II Development, excluding the cost of acquisition of the Qawra Site II, is expected to be in the region of €7.6 million. Construction commenced in Q1 2021 and such works were completed in Q1 2022. The project including finishing works is expected to be finalised by Q4 2022. Development works are being carried out by GGCL pursuant to a works contract entered into between GQM and GGCL for a value of approximately €7.6 million. Payment under the said contract is being settled by GQM according to agreed fixed monthly payments.

Projected revenues to be generated from the sale of units of the Qawra II Development is expected to amount to €21.5 million (net of sales commissions).

## 4.2 MOSTA DEVELOPMENT

In Q4 2020, GQM acquired a building site located directly on Triq id-Difiza Ċivili and on Triq tal-Qares, in Mosta, for a consideration of €10.1 million. The site has a superficial area of *circa* 5,895m<sup>2</sup> which on completion, shall comprise 94 apartments spread over 10 blocks.

The Mosta Development shall be spread over four levels and shall include 109 parking spaces, spread over one underground level, as well as four commercial units. The combined gross floor space of the apartments and garages shall consist of a saleable area of 20,208m<sup>2</sup>. The apartments shall be sold in a complete state, including all common areas except for the commercial units which will be sold in shell form internally and finished externally. Each block shall have separate entrances served with passenger lifts accessing both the apartments and the underlying garage levels. Furthermore, the penthouses at the topmost level of each block, shall be owned by third parties and shall include full ownership of the respective roof and airspace.

The village of Mosta is located in the northern region of Malta and is sought after by locals for the purposes of their primary residence. Mosta is a relatively large town which boasts of historical sites, shopping centres and other amenities. The Mosta Development is located on the outskirts of Mosta in a quieter area of the village. The project targets two different segments of prospective buyers. The majority of the development (68% of the Mosta Development) is targeted at the medium segment of the market. Such part of the development consists of two to three bedroomed apartments which have an approximate square meterage of 120m<sup>2</sup> – 165m<sup>2</sup> per apartment. The remainder of the development (32% of the Mosta Development) is targeted at the medium to high segment of the market. Such part of the development consists of larger apartments having a square meterage of 200m<sup>2</sup> per apartment, with each apartment enjoying unobstructed valley and distant views and is targeted at the medium to high segment of the market.



The overall construction and finishing expenditure of the Mosta Development is expected to be in the region of €9.1 million. Construction is expected to be completed by Q2 2023 and fully finished by Q4 2023. Development works are being carried out by GGCL pursuant to a works contract entered into between GQM and GGCL for a value of approximately €9.1 million.

Projected revenues to be generated from the sale of units of the Mosta Development is expected to amount to €29.4 million (net of sales commissions).

### 4.3 QAWRA III DEVELOPMENT

On 20 October 2021, GQL acquired the rights under a preliminary agreement dated 18 February 2021 related to the sale and transfer of the temporary utile dominium of the Qawra Site III. In terms of the said preliminary agreement so assigned in GQL's favour, GQL agreed to purchase and acquire the temporary utile dominium for the remaining period of 107 years out of the original grant of 150 years granted on the 6 July 1978 of Qawra Site III for a consideration of €7,500,000. Qawra Site III has a superficial area of approximately 2,375m<sup>2</sup>. GQM has allocated different uses to Qawra Site III: Portion A is earmarked for residential purposes and is the portion of Qawra Site III over which the Qawra III Development shall be developed and completed; Portion B is earmarked for touristic purposes and shall be held by the Group for resale or for future development.

#### ***Portion A – the Qawra III Development***

Portion A, measuring approximately 1,395m<sup>2</sup> shall be utilised for the construction of the Qawra III Development which, on completion, shall comprise three blocks of residential units consisting of four maisonettes and two shops at ground floor, 36 apartments spread over 6 floors and 6 penthouses on the 7th floor which will be sold in a finished state (excluding internal doors) and including all common areas.

The Qawra III Development shall be spread over eight levels and shall include 58 lock-up garages spread over two underground levels, as well as two commercial units. The combined gross floor space of the residential units and garages shall consist of an area of 11,575m<sup>2</sup>. Each block shall have separate entrances served with passenger lifts accessing both the residential units and the underlying garage levels. Furthermore, the topmost floor of each block shall consist of penthouses having full ownership of the respective roof and airspace.

The residential units will be sold in a completed state, including all common areas and will comprise a mix of two and three bedroomed residential units, measuring approximately 180m<sup>2</sup> to 210m<sup>2</sup>, which shall be priced to target primarily first-time buyers and buy-to-let investors. The commercial units shall be sold in shell form internally and finished externally.

The construction of the Qawra III Development commenced in Q1 2022, with construction envisaged to be completed by Q2 2023 and fully finished by Q1 2024. Development works shall be carried out by GGCL pursuant to a works contract entered into between GQL and GGCL for a value of approximately €4,300,000.



The Directors are of the view that, in the current economic conditions, the pricing strategy adopted has been designed to promote the sale of the residential units forming part of the Qawra III Development to a market where the Directors believe demand will remain strong.

Projected revenues to be generated from the sale of units of the Qawra III Development is expected to amount to €12.5 million (net of sales commissions).

***Portion B – the Qawra III Development***

Portion B, measuring approximately 980m<sup>2</sup>, shall be retained by the Group for future development or for resale depending on market circumstances and business opportunities of the Group. Portion B is subject to a permit for the development of a hostel and its value, estimated by an independent architect, amounts to *circa* €3.4 million. As at the date of this report, the Issuer has no current intention to undertake any such development and it shall not be making any reliance on any proceeds from the sale or any development of Portion B.

## **5. COMPLETED PROJECTS**

### **5.1 LUQA DEVELOPMENT**

In April 2017, GLL acquired the legal title over a site, including its sub-terrain and airspace, having *circa* 8,500m<sup>2</sup> of developable land in Luqa, accessible from eight streets, namely, Triq Ġorġ Zahra, Triq Tumas Galea, Triq I-Iskola, Triq Ġeraldu Spiteri, Triq W. Briffa, Triq Indri Micallef, Triq I-Aħwa Vassallo and Triq Ġuzeppi Callus, in an area known as Ta' Blejkiet in Luqa. The site is situated in the heart of the residential area of Luqa with close and direct access to the town's village core.

The Luqa Development is split into five zones and comprises 21 blocks having 301 underlying lock-up garages/car spaces and 268 residential units. To date, the project is fully complete in terms of construction works and finishings.

By 31 December 2021, GLL had completed the sale of 213 residential units or 79% of aggregate inventory.

To date, GLL has signed sales contracts for a further 34 residential units, while 18 residential units are subject to promise of sale agreements. As such, 3 units remain in stock and available for sale.

### **5.2 MELLIEĦA DEVELOPMENT**

In October 2016, GML acquired a plot of land measuring *circa* 5,100m<sup>2</sup> with access from the three streets surrounding the property situated in the Ta' Masrija area in Mellieħa over which the Mellieħa Development was developed.

The Mellieħa Development comprises 159 luxury apartments which are being sold finished in a complete state, including all common areas. The development encompasses 10 blocks of apartments, each with separate entrances and served with passenger lifts accessing both the apartments and underlying garage levels. The apartments at the top level also have access to roof level and enjoy full



ownership thereof. The development also includes 174 lock-up underground garages spread over 3 underground levels. To date, the project is fully complete in terms of construction works and finishings.

By 31 December 2021, GML had completed the sale of 152 residential units or 96% of aggregate inventory.

To date, GML has signed sales contracts for a further 2 residential units, while 4 residential units are subject to promise of sale agreements. As such, 1 unit remains in stock and available for sale.

### 5.3 MARSASCALA DEVELOPMENT

In 2019, GPL acquired a site measuring 2,402m<sup>2</sup> which is accessible from three streets, namely, Triq il-Kappara, Triq il-Vajrita and Triq Guzeppi Lanzon, Marsascula. Development works commenced in Q1 2020 and are now completed. The project comprises 63 residential units and 93 garages.

By 31 December 2021, GPL had completed the sale of 23 residential units or 37% of aggregate inventory.

To date, GPL has signed sales contracts for a further 19 residential units, while 13 residential units are subject to promise of sale agreements. As such, 8 units remain in stock and available for sale.

### 5.4 SAN PAWL TAT-TARĠA DEVELOPMENT

In 2019, GGL acquired a site measuring 330m<sup>2</sup>, situated in Triq Jean de la Vallette, San Pawl ta-Targa, Naxxar over which nine residential units and eight garages shall be developed. As at 31 December 2021, the project was fully completed.

The residential units were placed on the market towards the end of Q3 2020 and one unit was contracted by end of FY2021. As at the date of this report, a further 2 units were contracted for, while 7 units were subject to promise of sale agreements. As such, there are no units available for sale.

### 5.5 BIRKIRKARA DEVELOPMENT

In 2019, GGL acquired a site measuring 450m<sup>2</sup>, situated in Triq Qormi, Birkirkara, over which 14 residential units and nine garages shall be constructed. The project was fully completed by 31 December 2021.

GGL completed the sale of 8 units during FY2021 and a further unit was sold in Q1 2022. To date, 4 residential units are subject to promise of sale agreements and 1 unit remains in stock.





## 6. THE RESERVE ACCOUNT

All sales of units, including residential units and garages/car spaces, forming part of the Hypothecated Property shall be made on condition that units are released of all hypothecary rights and privileges encumbering the units being sold. For this purpose, the Security Trustee shall be empowered to release individual units of the Hypothecated Property from the security interest encumbering such unit/s upon receipt by it from the Issuer or from a prospective purchaser of a fixed amount of the purchase price attributed to each unit forming part of the Hypothecated Property.

All amounts received by the Trustee from the sales proceeds of units, forming part of the Hypothecated Property, shall be credited to the Reserve Account and shall be retained for the purpose of redeeming the 2016 Bonds, 2020 Bonds and, or the 2021 Bonds (as the case may be) on maturity. In the absence of unforeseen circumstances and subject to there being no material adverse changes in circumstances, the directors of the Issuer are of the view that the percentages available for cash flows that will be credited to the Reserve Account will be sufficient to cover the redemption of the outstanding Bonds on maturity.

## 7. ECONOMIC AND SECTOR ANALYSIS

### 7.1 ECONOMIC UPDATE

Real GDP growth in Malta is estimated to have rebounded strongly to 5.9% in 2021 after a considerable decline (-8.2%) in 2020. Growth was driven by the strong performance in the first three quarters of the year, when the improvement of the public health situation in Malta allowed for a significant relaxation of restriction measures. Improved business and consumer sentiment, as well as a recovery in tourism supported the economy. Growth is estimated to have been negative in the last quarter of 2021 and to remain muted in the first quarter of 2022, affected by the surge in infections in late 2021, the tightening of restrictions, low tourist numbers, continued disruptions in global value chains and negative effects of price increases in shipping and transport.

In the course of 2022, growth is expected to pick up again as domestic demand recovers, supported also by the implementation of the Recovery and Resilience Plan<sup>1</sup>. Prior to Russia's invasion of Ukraine on 24 February 2022, real GDP was forecasted to grow by 6.0% in 2022 and 5.0% in 2023. Malta was expected to reach pre-pandemic levels of economic activity around mid-2022.<sup>2</sup>

The war in Ukraine has created a new negative supply shock for the world economy, just when some of the supply-chain challenges seen since the beginning of the pandemic appeared to be starting to fade. The effects of the war will operate through many different channels and are likely to evolve if the conflict deepens further. In some respects, the direct role of Russia and Ukraine in the global economy is small. However, both countries are large producers and exporters of key food items,

<sup>1</sup> The Recovery and Resilience Facility will make €672.5 billion in loans and grants available to support reforms and investments undertaken by Member States. The aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

<sup>2</sup> European Economic Forecast – Winter 2022 (European Commission Institutional Paper 169 Feb'22)

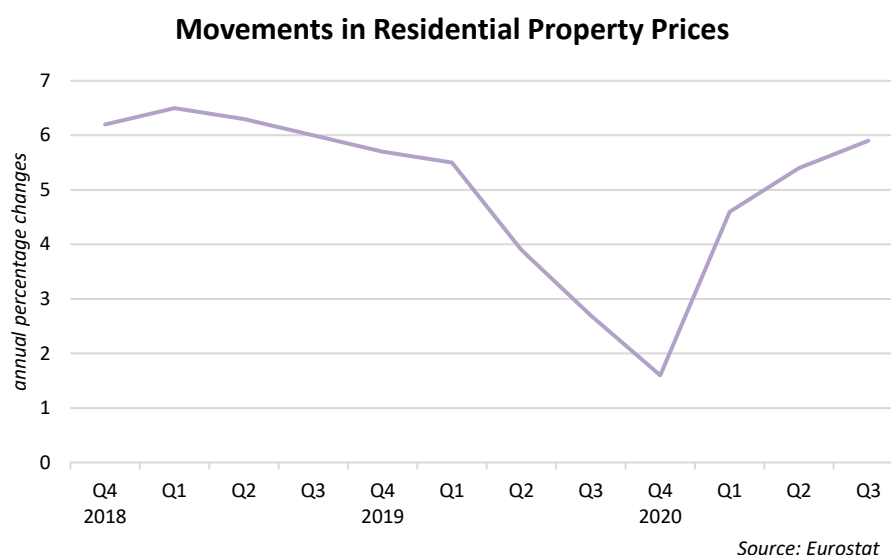


minerals and energy. The prices of many of these commodities have increased sharply since the onset of the war, even in the absence of any significant disruption of production or export volumes.

The authorities in Malta have expressed a commitment to continue to limit energy prices growth in 2022. Nonetheless, the increase in food, transport and imported goods prices and a gradual recovery in the tourism and hospitality sectors are set to drive up price pressures in 2022.

## 7.2 PROPERTY MARKET

The Property Price Index (PPI) – which is based on actual transactions involving apartments, maisonettes and terraced houses – continued to increase in annual terms. The annual rate of change reached 5.9% in the third quarter of 2021, up from 5.4% in the previous quarter (see chart below). Nevertheless, house price inflation in Malta remained below that in the euro area where prices increased at an annual rate of 8.8%. Notwithstanding the acceleration in the third quarter of 2021, house price inflation remains close to that recorded in the years before the pandemic.



From a shorter-term perspective, residential property prices seem to have returned to a growth trend following the sharp slowdown during the initial stages of the pandemic. Residential property prices continue to be supported by numerous factors including the low-interest rate environment that makes property more attractive as an investment as well as the Government's schemes related to the property market. Property prices were also supported by the enhancement of government support in response to the pandemic such as lower property tax rate and stamp duty to eligible transfers of immovable property. In particular, the property tax and stamp duty on the first €400,000 of the value of the transfer were reduced to 5.0% and 1.5% respectively. These measures were initially intended for final transfers made before 1 April 2021 but were later extended. Moreover, Budget 2021 extended or introduced more favourable terms on several schemes supporting the property market that were in place before the pandemic.<sup>3</sup>

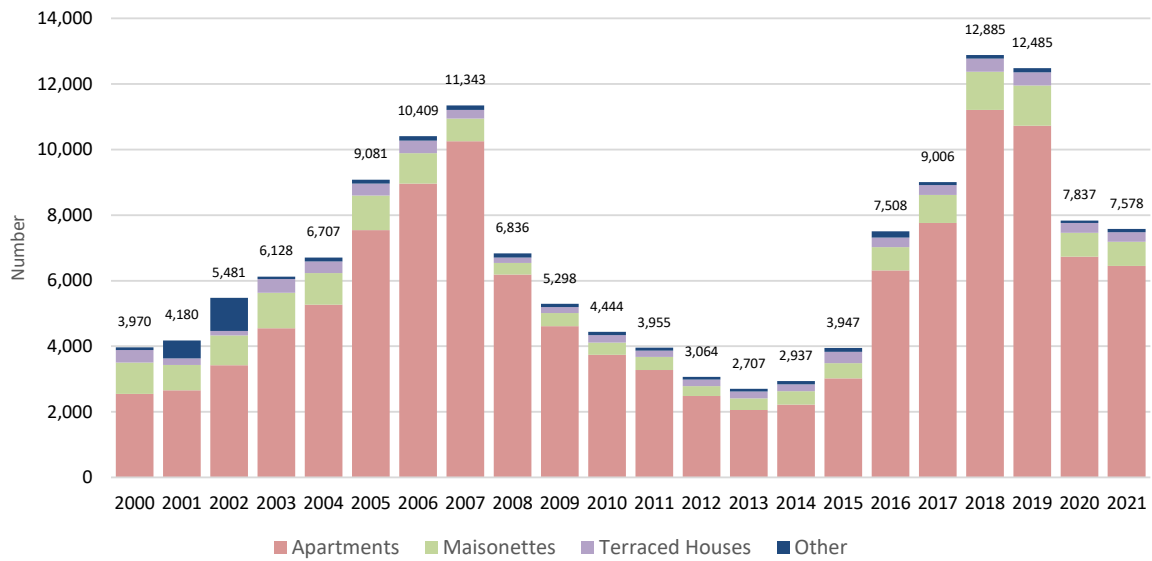
<sup>3</sup> Central Bank of Malta Quarterly Review – 2022 Vol. 55 No. 1



In 2021, the number of final deeds of sale relating to residential property amounted to 14,349 compared to 11,057 deeds in 2020 (+30%). The value of deeds completed in 2021 amounted to €3,120.3 million, an increase of 47% when compared to the prior year (2020: €2,125.7 million).<sup>4</sup>

The number of permits issued in 2021 for the construction of residential dwellings amounted to 4,956 permits, compared to 4,938 permits in the prior year, for the development of 7,578 residential units (2020: 7,837 residential units). As shown in the below chart, the number of units in 2021 (7,578) reflects a decrease of 41% from the all-time high of 12,885 units in 2018.

### Development Permits for Dwellings (number of units)



Source: Central Bank of Malta

<sup>4</sup> National Statistics Office Malta – News Release 006/2022



## PART 2 – GAP GROUP PERFORMANCE REVIEW

### 8. FINANCIAL INFORMATION RELATING TO THE 2020 BOND GUARANTOR AND 2021 BOND GUARANTORS

#### 9.1 GAP QM LIMITED

GQM was established on 23 September 2020 and since then has acquired the Qawra and Mosta sites and initiated development of the Qawra II Development and the Mosta Development. GQM has published its first set of audited financial statements for the period 23 September 2020 to 31 December 2021. The forecast for the financial year ending 31 December 2022 has been provided by management of the Issuer.

Gap QM Limited Income Statement for the period/year	23 Sept'20 to 31 Dec'21	1 Jan'22 to 31 Dec'22
	Actual (€'000)	Forecast (€'000)
Revenue	-	7,500
Cost of sales	-	(5,250)
Administrative expenses	(4)	(165)
<b>Operating (loss)/profit</b>	<b>(4)</b>	<b>2,085</b>
Net finance costs	-	-
<b>(Loss)/Profit before tax</b>	<b>(4)</b>	<b>2,085</b>
Taxation	-	(600)
<b>(Loss)/Profit for the period/year</b>	<b>(4)</b>	<b>1,485</b>

Gap QM Limited Cash Flow Statement for the period/year	23 Sept'20 to 31 Dec'21	1 Jan'22 to 31 Dec'22
	Actual (€'000)	Forecast (€'000)
Net cash used in operating activities	(19,220)	(3,913)
Net cash from financing activities	19,321	3,962
<b>Net movement in cash and cash equivalents</b>	<b>101</b>	<b>49</b>
Cash and cash equivalents at beginning of period/year	-	101
<b>Cash and cash equivalents at end of period/year</b>	<b>101</b>	<b>150</b>



<b>Gap QM Limited</b>		
<b>Statement of Financial Position</b>		
<b>As at 31 December</b>	<b>2021</b>	<b>2022</b>
	<b>Actual</b>	<b>Forecast</b>
	<b>(€'000)</b>	<b>(€'000)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Inventory - development project	22,489	28,500
Trade and other receivables	35	75
Cash and cash equivalents	101	150
	<u>22,625</u>	<u>28,725</u>
<b>Total assets</b>	<b><u>22,625</u></b>	<b><u>28,725</u></b>
<b>EQUITY</b>		
<b>Capital and reserves</b>		
Called up share capital	5	5
Retained earnings	(4)	1,481
	<u>1</u>	<u>1,486</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Borrowings and other financial liabilities	19,317	23,279
Other current liabilities	3,307	3,960
	<u>22,624</u>	<u>27,239</u>
	<b><u>22,624</u></b>	<b><u>27,239</u></b>
<b>Total equity and liabilities</b>	<b><u>22,625</u></b>	<b><u>28,725</u></b>

In FP2021, inventory amounted to €22.5 million and comprised the cost of acquisition of the Qawra Site II and Mosta Site amounting to €15.6 million and development costs relating to the Qawra II Development and Mosta Development of €6.9 million. The financing thereof was principally derived from amounts advanced by the Issuer from net proceeds of the 2020 Bonds.

To date, GQM has entered into promise of sale agreements for the sale of 22 and 9 residential units forming part of the Qawra II Development and Mosta Development respectively. In this regard, management is expecting to convert these POSAs into sales contracts by end of FY2022 for the aggregate consideration of €7.5 million.

In FY2022, GQM is projecting to generate an operating profit of €2.1 million and report a net profit of €1.5 million.

Inventory of development works-in-progress as at 31 December 2022 is estimated to amount to €28.5 million, which will be mainly financed from amounts on-lent by the Issuer from net proceeds of the 2021 Bonds.



## 9.2 GAP QAWRA LIMITED

GQL was established on 20 October 2021 to acquire the Qawra Site III and develop the Qawra III Development. GQL has not published its first set of audited financial statements. The following projected financial information of GQL has been provided by management of the Issuer and covers the period 20 October 2021 to 31 December 2022.

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<b>Gap Qawra Limited</b>	
<b>Projected Income Statement</b>	
<b>for the period 20 October 2021 to 31 December 2022</b>	
	<b>(€'000)</b>
Administrative expenses	(30)
<b>Loss for the period</b>	<b>(30)</b>

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<b>Gap Qawra Limited</b>	
<b>Projected Cash Flow Statement</b>	
<b>for the period 20 October 2021 to 31 December 2022</b>	
	<b>(€'000)</b>
Net cash used in operating activities	(9,525)
Net cash from financing activities	9,825
<b>Net movement in cash and cash equivalents</b>	<b>300</b>
Cash and cash equivalents at beginning of period	-
<b>Cash and cash equivalents at end of period</b>	<b>300</b>

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**Gap Qawra Limited**  
**Projected Balance Sheet**  
**As at 31 December 2022**

	(€'000)
<b>ASSETS</b>	
<b>Current assets</b>	
Inventory - development project	9,500
Cash and cash equivalents	300
	<u>9,800</u>
<b>Total assets</b>	<b><u>9,800</u></b>
<b>EQUITY</b>	
<b>Capital and reserves</b>	
Called up share capital	5
Retained earnings	(30)
	<u>(25)</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Borrowings and other financial liabilities	9,250
Other current liabilities	575
	<u>9,825</u>
<b>Total equity and liabilities</b>	<b><u>9,800</u></b>

The Qawra Site III was acquired in Q1 2022 for *circa* €8 million with proceeds raised from the issue of the 2021 Bonds. During the reviewed period, GQL will be fully focused on developing the Qawra III Development on the Qawra Site III. Such expenditure, projected at €9.5 million, is being funded from amounts advanced by the Issuer from net proceeds of the 2021 Bonds.



## 9. FINANCIAL INFORMATION RELATING TO THE ISSUER

The following financial information is extracted from the audited consolidated financial statements of the Issuer for the years ended 31 December 2019 to 2021. The projected consolidated financial information for the years ending 31 December 2022 of Gap Group has been provided by management of the Issuer.

**The projected financial information relates to events in the future and is based on assumptions which the Issuer believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.**

The Directors are monitoring closely inflationary risks resulting from the conflict in Ukraine and the aftermath of the COVID-19 pandemic. Whilst the Directors believe that the afore-mentioned events may result in an increase in property development costs and, or adversely affect sales of property in the near term, they are confident that the Group has in place robust financial fundamentals and sufficient resources to enable it to meet such challenges as and when they may arise.

<b>GAP Group p.l.c.</b>				
<b>Consolidated Statement of Comprehensive Income</b>				
<b>for the year ended 31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Revenue	28,287	23,786	50,116	35,175
Cost of sales	(20,500)	(15,816)	(35,317)	(24,788)
Administrative expenses	(1,650)	(1,167)	(2,550)	(1,790)
<b>Operating profit</b>	<b>6,137</b>	<b>6,803</b>	<b>12,249</b>	<b>8,597</b>
Investment income	729	592	717	205
Finance costs	(3,493)	(1,811)	(1,574)	(1,010)
<b>Profit before tax</b>	<b>3,373</b>	<b>5,584</b>	<b>11,392</b>	<b>7,792</b>
Taxation	(2,245)	(1,482)	(2,527)	(2,286)
<b>Profit for the year</b>	<b>1,128</b>	<b>4,102</b>	<b>8,865</b>	<b>5,506</b>
<b>Other comprehensive income</b>				
Movement in fair value of financial assets	157	(123)	76	50
<b>Total comprehensive income for the year</b>	<b>1,285</b>	<b>3,979</b>	<b>8,941</b>	<b>5,556</b>





Key Accounting Ratios	FY2019	FY2020	FY2021	FY2022
	Actual	Actual	Actual	Forecast
Operating profit margin (Operating profit/revenue)	22%	29%	24%	24%
Interest cover (times) (Operating profit/net finance cost)	2.22	5.58	14.29	10.68
Interest cover 2 (times) (Operating profit/finance cost)	1.76	3.76	7.78	8.51
Net profit margin (Profit after tax/revenue)	4%	17%	18%	16%
Earnings per share (€) (Profit after tax/number of shares)	0.45	1.64	3.55	2.20
Return on equity (Profit after tax/shareholders' equity)	10%	27%	41%	20%
Return on capital employed (Operating profit/total assets less current liabilities)	8%	7%	13%	11%
Return on assets (Profit after tax/total assets)	1%	4%	8%	6%

Source: MZ Investment Services Limited

In FY2020, the Group generated revenue amounting to €23.8 million compared to €28.3 million in FY2019 (-16%). Approximately 55% of revenue was derived from sales of units forming part of the Mellieħa Development and *circa* 39% from the Luqa Development. Operating profit for the year amounted to €6.8 million, an increase of €0.7 million from a year earlier, and total comprehensive income amounted to €4.0 million (FY2019: €1.3 million).

Operating profit margin improved from 22% in FY2019 to 29%, while net profit margin increased from 4% in FY2019 to 17%. Due to higher operating profits, interest cover increased from 2.22 times in FY2019 to 5.58 times in the last financial year. The efficiency ratios being a measure of a company's ability to use one's assets to generate income have also increased year-on-year. In fact, return on equity increased from 10% to 27% in FY2020, return on capital employed decreased by 1 percentage point to 7% while return on assets increased from 1% in FY2019 to 4%.

In FY2021, the Group's revenue more than double from €23.8 million in FY2020 to €50.1 million. Approximately 85% of revenue was generated from the Luqa Development and Mellieħa Development, while 15% was derived from projects described in section 5.3 to 5.5 of this report (primarily from the Marsascala Development). In consequence, operating profit increased by €5.4 million (+80% y-o-y) to €12.2 million (FY2020: €6.8 million), though operating margin decreased from



29% in FY2020 to 24% in FY2021. Due to the improvement in profitability, the return on equity increased substantially by 14 percentage points to 41% (FY2020: 27%).

Finance costs decreased from €1.8 million in FY2020 to €1.6 million in FY2021. Overall, comprehensive income increased by 125% to €8.9 million (FY2020: €4.0 million).

Revenue in FY2022 is projected to amount to €35.2 million compared to €50.1 million in the prior year. Management is assuming that during the said financial year the Group will complete the sale of the majority of remaining units forming part of the Mellieħa Development, Luqa Development, Marsascala Development, San Pawl tat-Tarġa Development and Birkirkara Development. Furthermore, the Group expected to generate €7.5 million from sales of residential units from the latest projects – Qawra II Development and Mosta Development.

The Group is projecting to generate an operating profit of €8.6 million compared to 12.2 million in the prior year, and thus maintain an operating profit margin of 24% (FY2021: 24%). Finance costs and taxation are expected to remain relatively constant on a y-o-y basis.

Overall, total comprehensive income for FY2022 is projected at €5.6 million compared to €8.9 million in FY2021 (-38%).



**GAP Group p.l.c.****Consolidated Statement of Financial Position**

as at 31 December

	2019	2020	2021	2022
	Actual	Actual	Actual	Forecast
	€'000	€'000	€'000	€'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	32	23	19	200
Investments	6,012	6,097	9,670	-
Loans and other receivables	10,111	10,382	10,676	10,952
Sinking fund	24	6,480	-	-
	<u>16,179</u>	<u>22,982</u>	<u>20,365</u>	<u>11,152</u>
<b>Current assets</b>				
Inventory - development project	48,958	62,649	45,820	41,032
Trade and other receivables	2,553	4,303	9,481	9,875
Short-term investments	-	-	-	8,368
Cash and cash equivalents	7,698	2,060	1,785	11,000
Sinking fund	12,498	11,901	34,722	6,000
	<u>71,707</u>	<u>80,913</u>	<u>91,808</u>	<u>76,275</u>
<b>Total assets</b>	<b><u>87,886</u></b>	<b><u>103,895</u></b>	<b><u>112,173</u></b>	<b><u>87,427</u></b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Called up share capital	2,500	2,500	2,500	2,500
Other capital	3,057	2,934	3,011	2,500
Retained earnings	5,598	9,700	16,064	22,131
	<u>11,155</u>	<u>15,134</u>	<u>21,575</u>	<u>27,131</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings and other financial liabilities	6,141	7,737	6,892	2,379
Debt securities	56,991	69,864	69,002	50,360
	<u>63,132</u>	<u>77,601</u>	<u>75,894</u>	<u>52,739</u>
<b>Current liabilities</b>				
Bank overdrafts	-	500	-	-
Borrowings and other financial liabilities	2,610	657	3,061	1,100
Other current liabilities	10,989	10,003	11,643	6,457
	<u>13,599</u>	<u>11,160</u>	<u>14,704</u>	<u>7,557</u>
	<b><u>76,731</u></b>	<b><u>88,761</u></b>	<b><u>90,598</u></b>	<b><u>60,296</u></b>
<b>Total equity and liabilities</b>	<b><u>87,886</u></b>	<b><u>103,895</u></b>	<b><u>112,173</u></b>	<b><u>87,427</u></b>



**Key Accounting Ratios**

	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Forecast
Gearing ratio <i>(Total net debt/net debt and shareholders' equity)</i>	78%	78%	60%	58%
Gearing ratio 2 (times) <i>(Total net debt/shareholders' equity)</i>	3.54	3.45	1.52	1.36
Net debt to Operating profit (years) <i>(Net debt/Operating profit)</i>	6.44	5.79	2.68	4.29
Net assets per share (€) <i>(Net asset value/number of shares)</i>	4.46	6.05	8.63	10.85
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	5.27	7.25	6.24	10.09

Source: MZ Investment Services Limited

The Group's balance sheet as at 31 December 2019 included total assets amounting to €87.9 million, made up of inventory (being acquisition of sites in Marsascala, San Pawl Tat-Tarġa and Birkirkara and works-in-progress on property developments) of €49.0 million, related party balance of €12.7 million and cash balances amounting to €20.2 million. Moreover, an amount of €6.0 million represented investments in various corporate bonds.

Liabilities principally included debt securities of €57.0 million, while bank loans and other financial liabilities amounted to €8.8 million. Shareholders' equity as at 31 December 2019 amounted to 11.2 million compared to €9.9 million a year earlier. Within shareholders' equity, other capital amounting to €3.1 million comprises a shareholders' loan of €2.5 million. This loan is classified as quasi equity since it is interest free and only repayable to the shareholders after the settlement of amounts due to bondholders.

In FY2020, the Group raised €21 million through the issue of the 2020 Bonds, of which, €15 million of proceeds was used to acquire the Qawra Site II and the Mosta Site. The remaining balance was utilised to settle capital creditor balances and to part fund ongoing development costs in relation to the Qawra II Development and the Mosta Development. Inventory increased from €49.0 million in FY2019 to €62.6 million, while cash balances (including sinking fund amounts) increased from €20.2 million in FY2019 to €20.4 million.

Total assets as at 31 December 2021 amounted to €112.2 million compared to €103.9 million in the prior year. The principal item is inventory of sites and progress development works which stood at €45.8 million in FY2021 (FY2020: €62.6 million). Due to the substantial turnover in FY2021, cash balances increased on y-o-y basis from €20.4 million in FY2020 to €36.5 million (inclusive of sinking fund amount).



The Group's equity increased by 43% from €15.1 million in FY2020 to €21.6 million on account of the net profits reported during the year and after deducting the distribution of an interim dividend of €2.5 million.

Total liabilities of the Group mainly comprised debt securities which remained unchanged at almost €70 million.

The gearing ratio of the Group decreased from 78% in FY2020 to 60% in FY2021 primarily on account of the above-mentioned increase in cash balances and retained earnings. The liquidity ratio was at 6.24 times (FY2020: 7.25 times) particularly in view of the significant amount of property inventory held in current assets, while the majority of borrowings are non-current liabilities repayable after more than 1 year. Furthermore, net assets per share increased from €6.05 in FY2020 to €8.63 in FY2021.

In the initial 4 months of FY2022, the Group issued €21 million 3.9% secured bonds 2024 – 2026 and cancelled €10.8 million of the 4.25% secured bonds 2023. Furthermore, the Group repaid in full €29.1 million 3.65% secured bonds 2022. As such, the outstanding balance of debt securities as at year end is expected to amount to €50.4 million compared to €69.0 million in FY2021. The gearing ratio of the Group is projected to decrease from 60% in FY2021 to 58% in FY2022.

Inventory as at 31 December 2022 is expected to amount to €41.0 million (FY2021: €45.8 million) and shall mainly include the Qawra Site II, the Mosta Site, the Qawra Site III and construction thereon.

<b>GAP Group p.l.c.</b>				
<b>Consolidated Cash Flow Statement</b>				
<b>for the year ended 31 December</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Net cash from (used in) operating activities	(20,317)	(10,862)	24,475	2,312
Net cash from (used in) investing activities	(1,206)	507	(2,866)	1,326
Net cash from (used in) financing activities	27,395	3,620	1,437	(23,145)
<b>Net movement in cash and cash equivalents</b>	<b>5,872</b>	<b>(6,735)</b>	<b>23,046</b>	<b>(19,507)</b>
Cash and cash equivalents at beginning of year	14,324	20,196	13,461	36,507
<b>Cash and cash equivalents at end of year</b>	<b>20,196</b>	<b>13,461</b>	<b>36,507</b>	<b>17,000</b>

Net cash outflow from operating activities in FY2020 amounted to €10.9 million compared to cash outflows of €20.3 million in FY2019. The cash outflow in FY2020 was mainly due to a y-o-y increase of €13.7 million in property inventory. Net cash from investing activities amounted to €0.5 million (FY2019: cash used in investing activities of €1.2 million) and primarily represented investment income.

Net cash from financing activities in FY2020 amounted to €3.6 million which was principally raised from issuance of bonds and bank loan facilities. In FY2020, net movement in cash and cash equivalents amounted to €6.7 million (adverse balance) compared to €5.9 million in FY2019 (positive balance).



Net movement in cash and cash equivalents in FY2021 amounted to €23.0 million (FY2020: adverse balance of €6.7 million). Net cash from operating activities reached €24.5 million, primarily on account of cash inflows from final sales contracts and a positive movement in working capital changes (mainly inventory).

Net cash used in investing activities amounted to €2.9 million, compared to inflows of €0.5 million in the prior year, on account of €3.6 million utilised for investment purposes while inflows of €0.7 million reflected investment income. Net cash from financing activities amounted to €1.4 million and represented net inflows from borrowings of €3.9 million and the payment (outflow) of €2.5 million in dividends.

In FY2022, the Group is projected to generate €2.3 million of net cash from operating activities which is expected to comprise operating profit of €8.6 million offset by adverse working capital changes of €6.3 million.

Net movement in investments and investment income, reported as investing activities, is projected to amount to €1.3 million (FY2021: net outflows of €2.9 million).

Net cash outflows used in financial activities is projected to amount to €23.1 million (FY2021: inflows of €1.4 million), reflective of net repayment of secured bonds and other borrowings for the year.

#### Reserve Account

In terms of the respective prospectus, the Issuer is required to build a sinking fund, the value of which will, by the redemption dates of the respective bonds, be equivalent to 100% of the outstanding value of bonds. Below is a table outlining the actual and expected balance to be held in the reserve account as at the end of the financial years indicated hereunder.

Contributions to Reserve Account as at 31 December	2019	2020	2021	2022
	Actual	Actual	Actual	Projection
	€'000	€'000	€'000	€'000
4.25% Secured Bonds 2023	17,712	18,405	19,091	8,368
3.65% Secured Bonds 2022	822	1,700	25,301	
3.70% Secured Bonds 2023 - 2025		4,373		6,000
3.90% Secured Bonds 2024 - 2026				
	<b>18,534</b>	<b>24,478</b>	<b>44,392</b>	<b>14,368</b>

The 3.70% Secured Bonds 2023 – 2025 was listed in December 2020 and as at year end the balance of net proceeds held by the Security Trustee amounted to €4.4 million. This amount was released to the Group during FY2021 for the purposes of financing the Qawra II Development and Mosta Development. In FY2022, the Group expects to transfer the amount of €6.0 million to the reserve



account in relation to the execution of €7.5 million of residential unit sales being forecasted for the year.

The 3.65% secured bonds were redeemed in April 2022 and accordingly, all funds held in the reserve account were utilised for such purpose.

In FY2022, the Security Trustee is expected to have a balance of €8.4 million for the purposes of fully redeeming the 4.25% secured bonds in 2023.

## 10. VARIANCE ANALYSIS

The following financial information relates to the variance analysis between: (i) the forecast financial information for the year ended 31 December 2021 included in the prior year's Financial Analysis Summary dated 6 December 2021 and the audited consolidated financial statements for the year ended 31 December 2021; and (ii) the forecast financial information for the year ending 31 December 2022 included in the prior year's Financial Analysis Summary dated 6 December 2021 and the updated forecast financial information for the year ending 31 December 2022.

GAP Group p.l.c.						
Consolidated Statement of Comprehensive Income						
for the year ended 31 December						
	2021	2021	2021	2022	2022	2022
	Actual	Forecast	Variance	Forecast	Forecast	Variance
	€'000	FAS Dec'21 €'000	€'000	€'000	FAS Dec'21 €'000	€'000
Revenue	50,116	51,918	(1,802)	35,175	30,017	5,158
Cost of sales	(35,317)	(36,720)	1,403	(24,788)	(21,164)	(3,624)
Administrative expenses	(2,550)	(1,898)	(652)	(1,790)	(840)	(950)
<b>Operating profit</b>	<b>12,249</b>	<b>13,300</b>	<b>(1,051)</b>	<b>8,597</b>	<b>8,013</b>	<b>584</b>
Investment income	717	298	419	205	-	205
Finance costs	(1,574)	(2,308)	734	(1,010)	(1,059)	49
<b>Profit before tax</b>	<b>11,392</b>	<b>11,290</b>	<b>102</b>	<b>7,792</b>	<b>6,954</b>	<b>838</b>
Taxation	(2,527)	(3,298)	771	(2,286)	(2,401)	115
<b>Profit for the year</b>	<b>8,865</b>	<b>7,992</b>	<b>873</b>	<b>5,506</b>	<b>4,553</b>	<b>953</b>
<b>Other comprehensive income</b>						
Movement in fair value of financial assets	76	153	(77)	50	103	(53)
<b>Total comprehensive income for the year</b>	<b>8,941</b>	<b>8,145</b>	<b>796</b>	<b>5,556</b>	<b>4,656</b>	<b>900</b>

**FY2021:** Actual operating profit was lower than forecast by €1.1 million due to a timing difference as certain sales contracts were concluded in January 2022 rather than in December 2021 as previously anticipated. The lower amount of revenue resulted in taxation being lower than projected by €0.8 million.

Actual finance costs were lower than expected by €0.7 million on account of a higher than forecasted amount of finance costs being capitalised to inventory (development works in progress). Overall, total comprehensive income for the year was higher than anticipated by €0.8 million.



**FY2022:** Total comprehensive income for the year has been revised upwards by €0.9 million. Further analysis shows that revenue is expected to be higher than initially projected by €5.2 million mainly on account of additional sales anticipated from the Qawra II Development and Mosta Development.

Accordingly, cost of sales has been revised upwards by €3.6 million. In addition, forecasted administrative expenses have also increased by €1.0 million. On the other hand, investment income of €0.2 million is expected to be receivable in FY2022 which was not included in the previously published projections.

GAP Group p.l.c.						
Consolidated Cash Flow Statement						
for the year ended 31 December						
	2021	2021	2021	2022	2022	2022
	Actual	Forecast	Variance	Forecast	Forecast	Variance
	€'000	FAS Dec'21 €'000	€'000	€'000	FAS Dec'21 €'000	€'000
Net cash from (used in) operating activities	24,475	22,271	2,204	2,312	14,081	(11,769)
Net cash from (used in) investing activities	(2,866)	468	(3,334)	1,326	110	1,216
Net cash from (used in) financing activities	1,437	(4,313)	5,750	(23,145)	(21,386)	(1,759)
<b>Net movement in cash and cash equivalents</b>	<b>23,046</b>	<b>18,426</b>	<b>4,620</b>	<b>(19,507)</b>	<b>(7,195)</b>	<b>(12,312)</b>
Cash and cash equivalents at beginning of year	13,461	13,461	-	36,507	31,887	4,620
<b>Cash and cash equivalents at end of year</b>	<b>36,507</b>	<b>31,887</b>	<b>4,620</b>	<b>17,000</b>	<b>24,692</b>	<b>(7,692)</b>

**FY2021:** Actual net movement in cash and cash equivalents amounted to €23.0 million compared to a forecasted positive balance of €18.4 million (+ €4.6 million).

During the year, net cash inflows from operating activities were higher than expected by €2.2 million, and a positive variance of €5.8 million in financing activities emanated from lower than expected net repayment of borrowings.

In contrast, a higher amount was committed for investment purposes which resulted in an adverse variance of €3.3 million in net cash from investing activities.

**FY2022:** Net cash from operating activities is lower than initially projected by €11.8 million due to higher balances of inventory (adverse changes in working capital). Furthermore, net cash used in financing activities are expected to amount to €23.1 million compared to the original forecast of €21.4 million due to a net increase in repayment of debt securities and other borrowings.

Overall, net movement in cash balances are expected to be lower than previously projected by €12.3 million.





<b>GAP Group p.l.c.</b>						
<b>Consolidated Statement of Financial Position</b>						
<b>as at 31 December</b>						
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2022</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Variance</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Variance</b>
	<b>€'000</b>	<b>FAS Dec'21</b>	<b>€'000</b>	<b>€'000</b>	<b>FAS Dec'21</b>	<b>€'000</b>
		<b>€'000</b>			<b>€'000</b>	
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	19	22	(3)	200	22	178
Investments	9,670	6,597	3,073	-	-	-
Loans and other receivables	10,676	10,657	19	10,952	10,952	-
Sinking fund	-	8,474	(8,474)	-	-	-
	<u>20,365</u>	<u>25,750</u>	<u>(5,385)</u>	<u>11,152</u>	<u>10,974</u>	<u>178</u>
<b>Current assets</b>						
Inventory - development project	45,820	53,607	(7,787)	41,032	44,486	(3,454)
Trade and other receivables	9,481	4,419	5,062	9,875	4,226	5,649
Short-term investments	-	-	-	8,368	-	8,368
Cash and cash equivalents	1,785	15,766	(13,981)	11,000	20,843	(9,843)
Sinking fund	34,722	16,121	18,601	6,000	3,849	2,151
	<u>91,808</u>	<u>89,913</u>	<u>1,895</u>	<u>76,275</u>	<u>73,404</u>	<u>2,871</u>
<b>Total assets</b>	<b><u>112,173</u></b>	<b><u>115,663</u></b>	<b><u>(3,490)</u></b>	<b><u>87,427</u></b>	<b><u>84,378</u></b>	<b><u>3,049</u></b>
<b>EQUITY</b>						
<b>Capital and reserves</b>						
Called up share capital	2,500	2,500	-	2,500	2,500	-
Other capital	3,011	2,500	511	2,500	2,500	-
Retained earnings	16,064	15,779	285	22,131	20,435	1,696
	<u>21,575</u>	<u>20,779</u>	<u>796</u>	<u>27,131</u>	<u>25,435</u>	<u>1,696</u>
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
Borrowings and other financial liabilities	6,892	7,642	(750)	2,379	3,344	(965)
Debt securities	69,002	74,291	(5,289)	50,360	45,369	4,991
	<u>75,894</u>	<u>81,933</u>	<u>(6,039)</u>	<u>52,739</u>	<u>48,713</u>	<u>4,026</u>
<b>Current liabilities</b>						
Bank overdrafts	-	-	-	-	-	-
Borrowings and other financial liabilities	3,061	181	2,880	1,100	181	919
Other current liabilities	11,643	12,770	(1,127)	6,457	10,049	(3,592)
	<u>14,704</u>	<u>12,951</u>	<u>1,753</u>	<u>7,557</u>	<u>10,230</u>	<u>(2,673)</u>
	<u>90,598</u>	<u>94,884</u>	<u>(4,286)</u>	<u>60,296</u>	<u>58,943</u>	<u>1,353</u>
<b>Total equity and liabilities</b>	<b><u>112,173</u></b>	<b><u>115,663</u></b>	<b><u>(3,490)</u></b>	<b><u>87,427</u></b>	<b><u>84,378</u></b>	<b><u>3,049</u></b>

**FY2021:** Actual total assets were lower than expected by €3.5 million due to lower than expected inventories (being progress works on Group projects) amounting to €7.8 million, partly offset by a higher amount of receivables (+€5.1 million).

In liabilities, borrowings and debt securities were lower than forecast by €3.2 million due to an increase in repayments of debt during the year.

**FY2022:** Projected total assets have been increased by €3.0 million mainly due to movements in receivables and inventory in current assets. With regard to movements in short term investments and cash balances, the Group had previously assumed that all short-term investments would be liquidated which should no longer be the case.



In equity, the Group has increased projected retained earnings by €1.7 million to €22.1 million. On the liabilities side, balance of debt securities has been revised upwards by €5.0 million, while 'other current liabilities' are expected to be lower than initially projected by €3.6 million.

## PART 3 - COMPARABLES

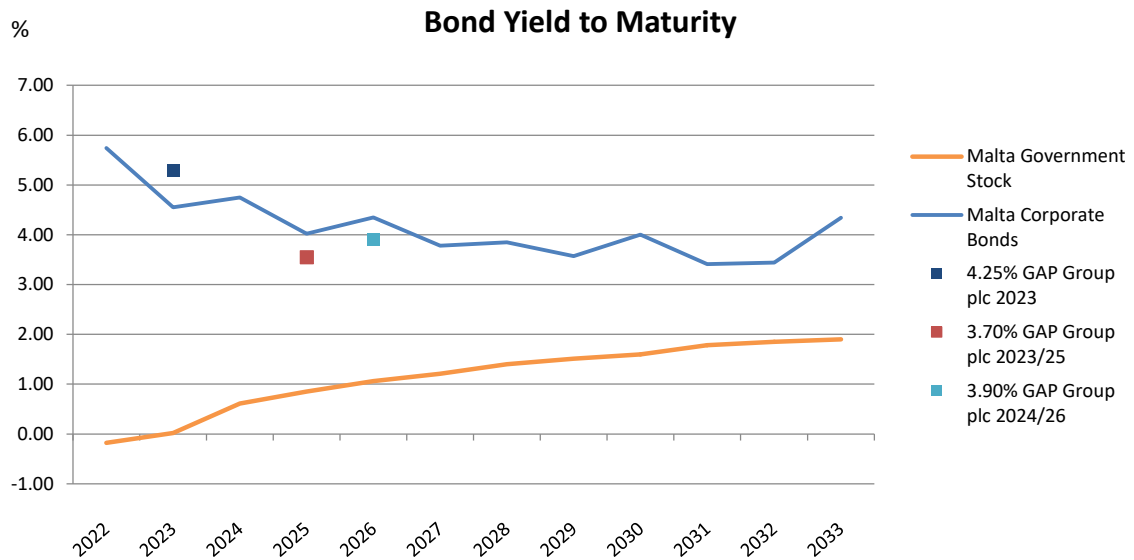
The table below compares the Issuer and its bond issues to other debt issuers listed on the Malta Stock Exchange and their respective debt securities. The list includes issuers (excluding financial institutions) that have listed bonds. Although there are significant variances between the activities of the Issuer and other issuers (including different industries, principal markets, competition, capital requirements etc), and material differences between the risks associated with the Group's business and that of other issuers, the comparative analysis provides an indication of the financial performance and strength of the Gap Group.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'000)	Net Asset Value (€'000)	Gearing Ratio (%)
6.00% Pendergardens Developments plc Secured € 2022 Series	21,093,400	5.74	1.79	60,578	29,491	36.39
<b>4.25% GAP Group plc Secured € 2023</b>	<b>8,367,900</b>	<b>5.29</b>	<b>14.81</b>	<b>112,173</b>	<b>21,575</b>	<b>60.31</b>
5.30% United Finance Plc Unsecured € Bonds 2023	8,500,000	4.55	0.67	37,298	6,677	75.91
5.80% International Hotel Investments plc 2023	10,000,000	4.54	1.06	1,695,229	838,216	40.59
5.5% Mediterranean Investments Holding plc € 2023	20,000,000	4.64	2.01	310,941	188,651	27.06
6.00% AX Investments Plc € 2024	40,000,000	3.57	1.69	374,099	237,143	25.10
6.00% International Hotel Investments plc € 2024	35,000,000	5.47	1.06	1,695,229	838,216	40.59
5.30% Mariner Finance plc Unsecured € 2024	35,000,000	4.75	3.30	102,348	52,929	46.65
5.00% Hal Mann Vella Group plc Secured € 2024	30,000,000	3.72	2.60	123,752	48,512	53.05
5.10% 1923 Investments plc Unsecured € 2024	36,000,000	4.36	4.58	149,687	52,831	49.89
4.25% Best Deal Properties Holding plc Secured € 2024	12,136,700	2.45	-	24,561	6,893	62.61
<b>3.70% GAP Group plc Secured € 2023-2025 Series 1</b>	<b>21,000,000</b>	<b>3.55</b>	<b>14.81</b>	<b>112,173</b>	<b>21,575</b>	<b>60.31</b>
5.75% International Hotel Investments plc Unsecured € 2025	45,000,000	4.66	1.06	1,695,229	838,216	40.59
5.10% GPM Holdings plc Unsecured € 2025	13,000,000	4.59	52.47	162,889	74,159	14.82
4.50% Hili Properties plc Unsecured € 2025	37,000,000	4.02	1.41	208,696	110,881	32.31
4.35% Hudson Malta plc Unsecured € 2026	12,000,000	4.35	4.51	58,951	12,557	68.49
4.25% Corinthia Finance plc Unsecured € 2026	40,000,000	4.11	0.51	1,717,057	828,470	42.64
4.00% International Hotel Investments plc Secured € 2026	55,000,000	3.36	1.06	1,695,229	838,216	40.59
5.00% Dizz Finance plc Unsecured € 2026	8,000,000	4.99	0.45	72,112	4,763	91.27
3.75% Premier Capital plc Unsecured € 2026	65,000,000	3.51	11.70	317,675	60,118	74.24
4.00% International Hotel Investments plc Unsecured € 2026	60,000,000	4.02	1.06	1,695,229	838,216	40.59
3.25% AX Group plc Unsec Bds 2026 Series I	15,000,000	3.25	1.69	374,099	237,143	25.10
<b>3.90% GAP Group plc Secured € 2024-2026</b>	<b>21,000,000</b>	<b>3.90</b>	<b>14.81</b>	<b>112,173</b>	<b>21,575</b>	<b>60.31</b>
4.35% SD Finance plc Unsecured € 2027	65,000,000	4.35	0.88	328,464	131,504	30.32
4.00% Eden Finance plc Unsecured € 2027	40,000,000	3.78	3.63	193,529	109,284	28.55
4.00% Stivala Group Finance plc Secured € 2027	45,000,000	3.49	3.25	362,955	235,392	26.66
3.85% Hili Finance Company plc Unsecured € 2028	40,000,000	3.85	3.44	624,222	106,811	78.42
3.65% Stivala Group Finance plc Secured € 2029	15,000,000	3.57	3.25	362,955	235,392	26.66
3.80% Hili Finance Company plc Unsecured € 2029	80,000,000	3.88	3.44	624,222	106,811	78.42
3.75% AX Group plc Unsec Bds 2029 Series II	10,000,000	3.79	1.69	374,099	237,143	25.10
3.65% International Hotel Investments plc Unsecured € 2031	80,000,000	3.68	1.06	1,695,229	838,216	40.59
3.50% AX Real Estate plc Unsec Bds 2032	40,000,000	3.44	-	238,228	78,698	63.41

29-Apr-22

Source: Malta Stock Exchange, Audited Accounts of Listed Companies, MZ Investment Services Ltd





Source: Malta Stock Exchange, Central Bank of Malta, MZ Investment Services Ltd

29 April 2022

To date, there are no corporate bonds which have a redemption date beyond 2033. The Malta Government Stock yield curve has been included as it is the benchmark risk-free rate for Malta.

The 2016 Bonds are trading at a yield of 5.29%, which is *circa* 74 basis points higher when compared to other corporate bonds maturing in 2023. The premium over FY2023 Malta Government Stock is 453 basis points.

The 2020 Bonds are trading at a yield of 3.55%, which is *circa* 47 basis points lower when compared to other corporate bonds maturing in 2025. The premium over FY2025 Malta Government Stock is 270 basis points.

The 2021 Bonds are trading at a yield of 3.90%, which is *circa* 45 basis points lower when compared to other corporate bonds maturing in 2026. The premium over FY2026 Malta Government Stock is 284 basis points.



## PART 4 - EXPLANATORY DEFINITIONS

Income Statement	
Revenue	Total revenue generated by the Issuer from its business activities during the financial year.
Cost of sales	Operating expenses include the cost of construction and other related expenses.
Operating profit	Operating profit can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Issuer during the financial year both from its operating as well as non-operating activities.
Profitability Ratios	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Efficiency Ratios	
Return on equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
Equity Ratios	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date.
Cash Flow Statement	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Group.



Cash flow from investing activities	Cash generated from activities dealing with the acquisition and disposal of long-term assets and other investments of the Issuer.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Issuer.

### Balance Sheet

Non-current assets	Non-current assets are the Issuer's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Issuer amortises the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was acquired. Such assets include property, plant & equipment, and loans & other receivables.
Current assets	Current assets are all assets of the Issuer, which are realisable within one year from the balance sheet date. Such amounts include development stock, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Issuer within a period of one year from the balance sheet date, and include accounts payable and short-term debt, including current portion of bank loans.
Non-current liabilities	The Issuer's long-term financial obligations that are not due within the present accounting year. The Issuer's non-current liabilities include long-term borrowings and debt securities.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
Other capital	Other capital is included in total equity and mainly comprises a loan from shareholders. This loan is classified as quasi equity since it is interest free and only repayable to the shareholders after the settlement of amounts due to bondholders.
Net assets per share	Total assets less total liabilities divided by the number of equity shares in issue.

### Financial Strength Ratios

Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
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Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Net debt to operating profit	The net debt to operating profit ratio is a measurement of leverage, calculated as a company's interest bearing liabilities minus cash or cash equivalents, divided by its operating profit. This ratio shows how many years it would take for a company to pay back its debt if net debt and operating profit are held constant.
Gearing ratio	<p>The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity. Alternatively, the gearing ratio can be calculated by dividing a company's net debt by shareholders' equity.</p> <p>Shareholders' equity comprises 'other capital' as defined hereinabove.</p>

